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**INTERNATIONAL HARVESTER
CANADA**

Annual Report 1979



Preface

Food and fiber, transportation, construction and energy are industries that are vitally important to the needs of people everywhere.

Providing the basic machinery for any one of these ever-expanding industries is a big undertaking.

Providing the basic machinery for all of them is extraordinary and unique with International Harvester.

Our Canadian roots go back to 1903 when the company began manufacturing from a single plant at Hamilton, Ontario, with 800 employees.

Harvesting machines were the first products off our line.

Today, IH supplies all kinds of agricultural machinery, trucks, construction and industrial

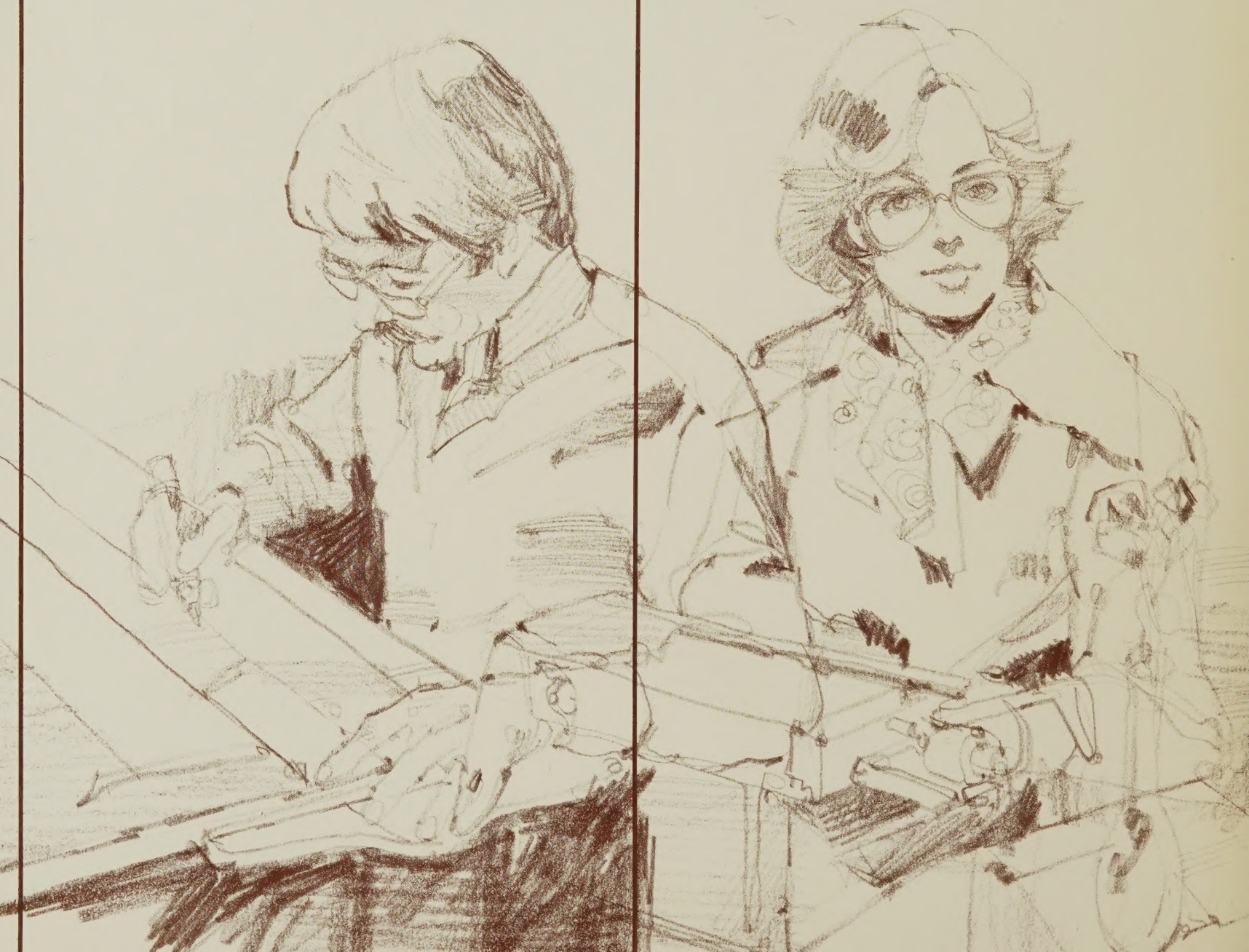
equipment, turbo machinery, recreational vehicles and power lawn products.

Two-thirds of the products we manufacture in Canada are for export. In all, the Company ships to 37 countries.

This high level of acceptance is the result of our commitment to excellence — a commitment that is shared by over 6300 employees.

For over three-quarters of a century, IH has played an important role in Canada's economy.

As we enter the 80's, we look forward to an even greater role — one that will be beneficial to both the country and the Company.



Financial Highlights

(fully consolidated basis)
(Dollars in thousands)

	1979	1978
Sales	\$1,429,529	\$1,009,411
Net Income	\$ 73,954	\$ 35,166
Return on Sales	5.17%	3.48%
Return on Shareholders' Equity*	39.16%	21.79%
Dividends Paid	\$ —	\$ 7,700
Income Retained for the Year	\$ 73,954	\$ 27,466
Taxes-Federal, Provincial and Local	\$ 29,472	\$ 38,376
Depreciation and Amortization	\$ 7,367	\$ 6,950
Capital Expenditures	\$ 9,587	\$ 10,234
Long-term Debt	\$ 171,966	\$ 153,978
Shareholders' Equity at End of Year	\$ 262,786	\$ 188,832
Average Number of Employees (Canada)	6,381	6,347

*at beginning of the year



Directors and Officers

at October 31, 1979

Board of Directors:

Thomas L. Dougherty
William R. Fleming
Edward R. Griffith
J. Patrick Kaine
Charles J. Munro
John E. Reble
Herbert V. Rose

Officers:

Charles J. Munro
President
Herbert V. Rose
*Vice President,
Finance & Administration*
Edward R. Griffith
Treasurer
William R. Ofield
Comptroller
Lloyd A. Pezze
Secretary
John E. Reble
*Director, Human Resources
and Assistant Treasurer*

Other Executives:

Robert L. Gregson
*Director, Communications
& Public Affairs*
William C. McConnachie
Director, Technical Services
John E. Colby
Manager, Truck Marketing
A. Keith Hibbard
Manager, Service Parts
Nicholas Penner
Manager, Agricultural Marketing
Donald A. Thorsell
Manager, Finance Sales



**INTERNATIONAL HARVESTER
CANADA**

General Offices: 208 Hillyard Street,
Hamilton, Ontario, L8N 3S5

Annual Report 1979

The fiscal year ended October 31, 1979

Ce rapport est publié en français et en anglais.
Si vous préférez un exemplaire français, veuillez
écrire au Directeur des Relations publiques de
la Compagnie.

President's Message

It's a pleasure to report the activities of the Company in 1979.

It was a year in which all three of our major product lines performed exceedingly well. Production and sales units started at high levels of activity and were maintained, resulting in gains which, at the end of the first nine months, exceeded our total results for the 1978 fiscal year.

By this current year's end, International Harvester Canada accomplished record sales of \$1,429,529,000 and earnings of \$73,954,000.

These figures reflect the contributions of all subsidiary operations including Seddon Diesel Vehicles Limited of Great Britain.

Because of changes in United Kingdom Tax Law relating to deferred taxes on yearly increases in inventory for the period 1973 to 1979, taxes otherwise payable of \$16,450,000 have been credited to Seddon's 1979 income.

International Harvester in Canada had sales of \$1,211,000,000 and earnings, including income from finance subsidiaries, of \$40,694,000.

Earnings were less than we had expected because of the continued weakness of the Canadian dollar and the severe escalation of interest rates. Despite these adverse factors, the Company did see a marked improvement over the previous year.

Trucks

Industry-wide, truck sales were very strong in 1979 with a record 50,000 medium and heavy-duty units purchased in Canada.

We're pleased to report that International Harvester Canada increased its participation in the medium and heavy-duty truck classes — and at present, holds a 24.9% share of the market.

Trucks haul over half of Canada's total tonnage. In many parts of the country, they are the only means of transporting goods.

This dependency on trucks combined with the rising cost of fuel continues the swing to more efficient, longer lasting diesel engines.

In this area, the Company is in an excellent position.

In heavy-duty trucks, our line is basically all diesel.

In medium-duty trucks, we're moving rapidly to diesel power — our DT466 and a new 9-litre engine are well accepted and in high demand.

The market for our 4-wheel drive Scout was much below our expectations in 1979, but we did maintain our market share. Because of rising fuel prices, buyer cautiousness will likely continue.

However, with Scout's all-weather, all-terrain practicality and our new 5-year/160,000 km (100,000 mile) engine and rust warranty, our participation should increase in 1980.

In the heavy-duty off-highway truck market, Pacific Truck and Trailer continued to see growth in 1979.

The Vancouver-based subsidiary operated at capacity throughout the year to serve our strong domestic lumber and pulp and paper industries and meet increasing export demand.

Agricultural Equipment

1979 was a record year for the agricultural equipment industry due to escalating world demand for food products and an increase in gross farm cash income.

The Company shared in an industry-wide sales increase, significantly improving participation in several key areas. 1979 also saw the introduction of many new products such as our revolutionary 2+2 Tractors and a large pull-type Axial-Flow Combine that completes this popular line.

A key marketing strategy was the introduction in Canada of our XL Dealer Program.

Designed to upgrade and computerize many areas within the dealership, this program will strengthen sales and service capability — and, ultimately, the market position of both dealers and the Company.

For the year ahead, we're optimistic — based on the improvement in grain and livestock prices as well as farmers' plans to seed large acreages in Western Canada.

Of course, the barometer of the agricultural industry is tractor sales — and in 1979, they totalled approximately 30,000 units, up very slightly from 1978.

Industry forecasts see a similar demand in 1980.

The trend continues to larger farms . . . and to larger equipment that gets the job done faster and with better fuel-efficiency. With a complete line of high horsepower tractors as well as large tillage, planting and harvesting equipment, the Company is in a good position to meet future demands.

Construction Equipment

With the resurgence of Canada's mining, pulp and paper and lumber industries in 1979, our Payline equipment group had record sales in these and other resource industries — particularly ones involved in energy development.

There was also high acceptance of new products introduced during the year.

Of special interest to customers was the International 580 Loader. With its 22 cu. yd. capacity rated bucket, it's the world's largest single-engine mechanical-drive wheel loader.

Looking to the future, in residential construction, there may be a softening of demand for lighter equipment such as backhoes and loaders. Housing starts are down and interest rates are high. If the situation continues, this sector of our market may be adversely affected.

However, on the positive side, we expect more activity in the petroleum and gas area — especially further development of the Alberta Tar Sands.

Solar Equipment

The demand for gas turbines remained strong in 1979, with energy related industries increasingly in the market for larger capacity equipment and innovative packages to serve their needs. In keeping with our objective of serving our customers needs, we expect to introduce a new, higher horsepower unit in the near future.

We've established a good order board for 1980 — and to keep pace with the pipeline industry's growth in Western Canada, we're expanding Solar's manufacturing facility in Edmonton.

Taking an overall view of the markets we serve, we're optimistic.

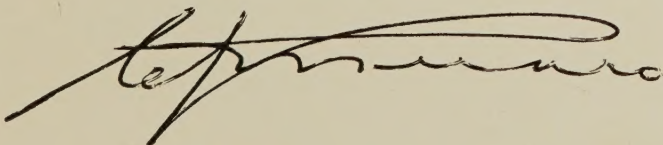
- The need for trucks, because they move so much of the goods in Canada, will increase in the years ahead.
- Canada has a strong agricultural base and there's no lessening in world demand for food.
- On the construction side, increased requirements for gas, oil and other resources should improve our equipment sales.

Of course, the effect on our Canadian operations regarding the current UAW strike in the United States represents major uncertainties for the Company in the new year.

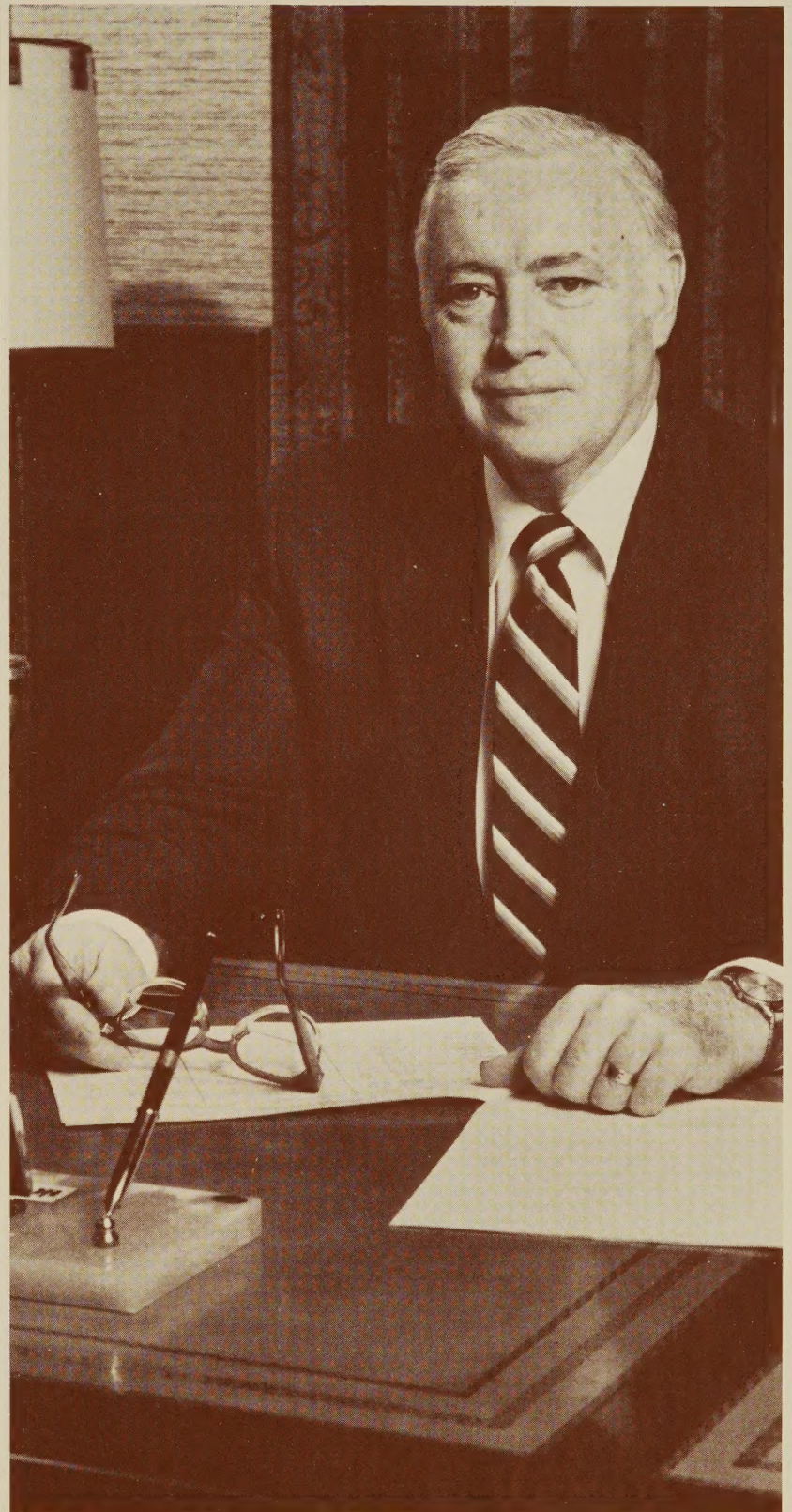
Along with this, there's no doubt that high interest rates, rising energy costs, recession pessimism and Canada's political situation will hold industry on a tight rein.

Thus, as we enter the 80's, we temper our optimism with the need for cost-saving innovation, efficiency and moderation in our expectations.

On behalf of the Board of Directors, I would like to say thanks to our employees, customers and suppliers. Your support has been the key to the Company's success — and for this, we express our sincerest appreciation.



Charles J. Munro



Transportation

Trucks are vitally important to the economy in meeting the distribution needs of the manufacturing, construction and agricultural sectors as well as the commercial community.

They're the life line of our society, moving more goods than all other modes of transportation combined.

Recognizing this essential role, IH has increasingly addressed itself to innovative engineering, particularly in the area of fuel conservation, to assist the truck transportation industry in minimizing its operating costs.

Strong evidence of this can be seen at our assembly plant in Chatham, Ontario, where medium-duty S-Series and Cargostar models are now equipped with the popular DT-466 diesel engine and a new 9-litre diesel engine — both designed for efficient, economical fuel consumption.

Chatham-produced trucks, together with Paystar, Transtar and the heavy-duty on/off-road vehicles produced by Pacific Truck and Trailer in North Vancouver, B.C., continue to gain esteem in the transportation industry.



Agriculture

With increasing world demand for food, farmers are looking to get more from their land. Stepped up productivity is correspondingly reflected in bigger and more powerful equipment.

The International 3788 Tractor, unveiled in 1979, is a good example of the trend to increased capacity.

Combining high engine horsepower with exclusive 2+2 performance (the mobility of a 2 wheel drive tractor plus the traction of a 4 wheel drive tractor), it's the biggest of the tractors that last year revolutionized the farm scene.

Also introduced during the year was the International Axial-Flow Pull-Type Combine.

Welcomed by the agricultural community, its uniquely simple threshing/separating system has been acclaimed by experts as a major milestone in the development of combines for small grain harvesting.

Big is where agriculture is going — bigger farms, bigger yields.

At International Harvester, we're pointing the manufacturing direction with equipment to meet the needs of farmers today and for years to come.



Construction, resource development and energy

For Canada's construction, lumber, oil and gas, mining and other resource industries, no other company provides as many kinds of productive power as International Harvester.

During 1979, our line of equipment was augmented with the introduction of nine new machines including the world's largest single-engine mechanical-drive wheel loader.

Important to owners is minimizing downtime for servicing.

In 1974, International Harvester introduced the modular concept. If a final drive or transmission breaks down, the entire unit can be replaced.

Parts commonality is another cost-efficiency feature that IH pioneered for its Payline equipment.

In the field of energy, the Company's Solar subsidiary in Alberta distributes turbines for generating emergency electrical power in telephone, telegraph, electric utilities and centralized computer centre applications.

Also, to serve the oil and gas industry, Solar turbines are positioned at compressor stations for dependable pipeline transmission.

Solar products are manufactured and marketed as pre-tested packages and are earning an enviable reputation in energy generation and transmission around the world.



Recreation

The reputation of the line of International Scout four-wheel drive vehicles continues to grow as Canadians increasingly demand greater durability and all-weather convenience for the investment they make in personal transportation.

Refinements during 1979 included rust-inhibiting applications, improved air-conditioning and turbo-charged diesel engines.

As Scout enters the 80's, it will offer even greater value to the cost-conscious buyer with the introduction of a 5-year or 160,000 kilometer warranty package against rust perforation and engine fault.

Thus, in addition to Scout's proven popularity as a recreational vehicle capable of taming brutal terrain, it is continuing its challenge as a superior alternative to the ordinary passenger car.



Lawn and garden

Increasingly, homeowners are turning their lawns and gardens over to the power equipment that's as tough and dependable as its well-earned reputation.

International Harvester has it — a total line for every outdoor chore.

Cadet Tractors are available in 8 models, from 8 to 19.9 horsepower.

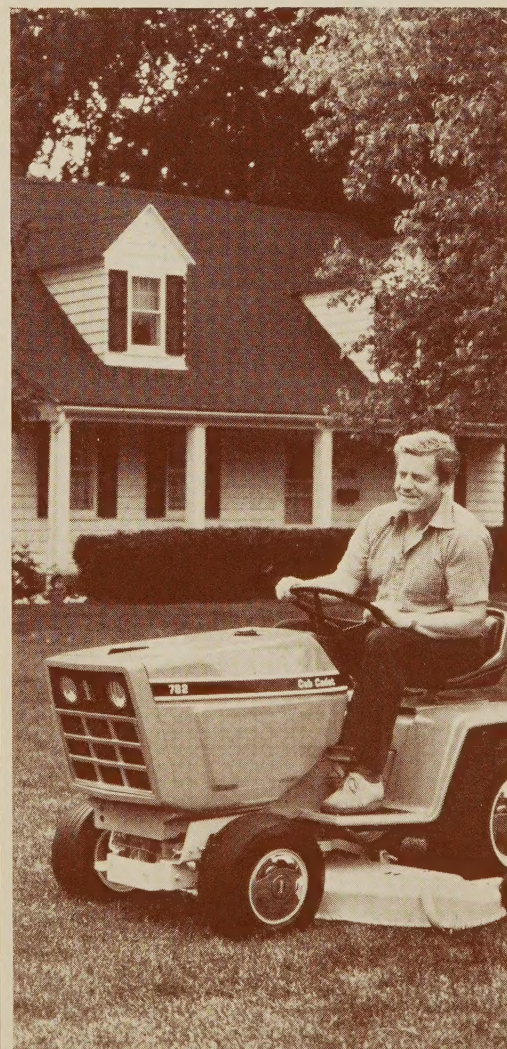
With special attachments, they work year 'round — mowing, hauling, clearing snow and more.

Cadet Riding Mowers make lawn care . . . carefree. 5 and 8 horsepower models cut the toughest grass down to size, fast and economically.

Also included in the Power Lawn Products line are rotary tillers, walk-behind snow-blowers, push mowers and washers.

All deliver big job performance to free up leisure time for the things that homeowners enjoy doing best.

For professional results, Canadians trust a seasoned hand — International Harvester, a leader in Power Lawn Products.



Consolidated Statement of Income and Income Retained

For the Years ended October 31, 1979 and 1978

(Dollars in thousands)

	1979	1978
Sales and Other Revenues		
Sales:		
Canadian operations to —		
Dealers and users in Canada	\$ 833,099	\$ 549,666
International Harvester Company	365,792	279,917
Other affiliated companies and jobbers	12,056	11,062
	<u>1,210,947</u>	<u>840,645</u>
Seddon Diesel Vehicles Limited	218,582	168,766
Total Sales	<u>1,429,529</u>	<u>1,009,411</u>
Finance operations revenue	31,581	28,026
Total Sales and Other Revenues	<u>1,461,110</u>	<u>1,037,437</u>
Costs and Expenses		
Cost of Sales	1,244,504	875,754
Marketing and administrative expenses	68,920	65,099
Interest expense		
(including long-term of — 1979 \$18,790; 1978 \$16,251)	53,101	34,308
Sundry deductions less other income	(2,744)	3,430
Provision for income taxes: (note 5)		
Current	26,229	18,831
Deferred	(2,854)	4,849
Total Costs and Expenses	<u>1,387,156</u>	<u>1,002,271</u>
Net Income	73,954	35,166
Dividends Paid	—	7,700
Income Retained		
— for the year	<u>73,954</u>	<u>27,466</u>
— at beginning of the year:		
as previously stated	176,481	148,769
adjustment of prior year's net income (note 9)	(2,649)	(2,403)
as restated	<u>173,832</u>	<u>146,366</u>
— at end of the year	<u>\$ 247,786</u>	<u>\$ 173,832</u>

The accompanying Summary of Accounting Policies and Notes to Consolidated Financial Statements are an integral part of this statement.



Consolidated Statement of Financial Condition

October 31, 1979 and 1978

(Dollars in thousands)

ASSETS**Current Assets**

Cash	\$ 10,213	\$ 182
Notes receivable (note 1)	364,754	217,260
Accounts receivable — less allowances	74,880	57,575
Accounts receivable from affiliated companies	31,882	1,859
Inventories (note 2)	247,901	180,622
Deferred income taxes	7,088	—
Other current assets	7,043	6,790

Total Current Assets

743,761 464,288

Notes Receivable, Long-term (note 1)

240,463 181,257

Property, Plant and Equipment

at cost, less depreciation & amortization (note 3)

57,524 56,923

Goodwill at cost less amortization

3,637 3,924

Other Assets

9,369 9,947

Total Assets\$1,054,754 \$ 716,339**LIABILITIES AND SHAREHOLDERS' EQUITY****Current Liabilities**

Bank indebtedness	\$ 21,949	\$ 23,589
Notes payable — banks	67,820	19,514
Notes payable — commercial paper	335,967	178,086
Current maturities of long-term debt (note 4)	1,100	19,000
Current invoices, payrolls and accruals	140,754	95,855
Accrued taxes	27,890	4,653
Accounts payable to affiliated companies	4,319	14,906
Deferred income taxes	—	5,802

Total Current Liabilities

599,799 361,405

Long-term Debt (note 4)

171,966 153,978

Deferred Income Taxes

20,203 12,124

Shareholders' EquityCapital stock — authorized, issued and fully paid —
150,000 common shares of \$100 par value

15,000 15,000

Income retained

247,786 173,832

Total Shareholders' Equity

262,786 188,832

Total Liabilities & Shareholders' Equity\$1,054,754 \$ 716,339

Approved by the Board:

C. J. Munro, *Director*H. V. Rose, *Director*

The accompanying Summary of Accounting Policies and Notes to Consolidated Financial Statements are an integral part of this statement.



Consolidated Statement of Changes in Financial Position

For the Years ended October 31, 1979 and 1978

(Dollars in thousands)

Source of Working Capital

	1979	1978
Net income	\$ 73,954	\$ 35,166
Items not affecting working capital:		
Depreciation and amortization	7,367	6,950
Deferred income taxes	8,079	(715)
Amortization of goodwill	287	287
Working Capital Provided from Operations	89,687	41,688
Property disposals	1,619	1,362
Increase (Decrease) in long-term debt	17,988	(213)
Other — net	578	(3,249)
Total Source	109,872	39,588

Application of Working Capital

Capital expenditures:		
Canadian facilities	7,354	9,215
Equipment for lease	599	297
Seddon Diesel Vehicles Limited	1,634	722
Total Capital Expenditures	9,587	10,234
Dividends paid	—	7,700
Increase in notes receivable, long-term	59,206	34,830
Total Application	68,793	52,764
Increase (Decrease) in Working Capital	41,079	(13,176)
Working Capital — at beginning of the year	102,883	116,059
— at end of the year	\$ 143,962	\$ 102,883

Changes in Working Capital

Current assets — increase (decrease)		
Cash	\$ 10,031	\$ (133)
Notes and accounts receivable	194,822	27,194
Inventories	67,279	33,977
Deferred income taxes	7,088	—
Other current assets	253	1,190
Current liabilities — (increase) decrease		
Bank indebtedness	1,640	(17,151)
Notes payable — banks and commercial paper	(206,187)	(17,410)
Current maturities of long-term debt	17,900	(12,894)
Current invoices, payrolls and accruals	(44,899)	(15,819)
Accrued taxes	(23,237)	1,950
Accounts payable to affiliated companies	10,587	(8,314)
Deferred income taxes	5,802	(5,766)
Increase (Decrease) in Working Capital	\$ 41,079	\$ (13,176)

The accompanying Summary of Accounting Policies and Notes to Consolidated Financial Statements are an integral part of this statement.

Notes to Consolidated Financial Statements

(Dollars in thousands)

	1979	1978
1. Notes Receivable		
Notes receivable — wholesale	\$297,487	\$172,584
— retail	367,178	265,135
Unearned finance charges	(57,558)	(37,707)
Allowance for doubtful notes, deferred discounts and trade allowances	(1,890)	(1,495)
Total Notes Receivable	605,217	398,517
Less current portion	364,754	217,260
Notes Receivable, Long-term	<u>\$240,463</u>	<u>\$181,257</u>
2. Inventories		
Finished goods	\$113,584	\$ 91,155
Raw materials and supplies	96,361	63,898
Work-in-process	37,956	25,569
Total Inventories	<u>\$247,901</u>	<u>\$180,622</u>
3. Property, Plant and Equipment		
Buildings, machinery and equipment at cost:		
Manufacturing	\$ 79,972	\$ 75,741
Distribution	17,298	18,146
Other	9,112	8,569
	106,382	102,456
Less accumulated depreciation	58,805	55,454
	47,577	47,002
Tooling and pattern equipment at cost, less amortization	5,308	5,075
Land at cost	4,639	4,846
Net Property	<u>\$ 57,524</u>	<u>\$ 56,923</u>
4. Long-term Debt		
International Harvester Company of Canada, Limited		
Medium-term Notes, Series A, due 1979 with interest at 10½% payable semi-annually	\$ —	\$ 18,000
Subsidiaries		
Senior indebtedness — Series A to E debentures and notes due 1979 to 1993 with interest at rates from 5¾% to a specified percentage over the Canadian bank prime rate for commercial loans, payable annually and semi-annually	131,066	122,978
Subordinated indebtedness — notes, due 1980 to 1991 with interest at rates from 6% to a specified percentage over the Canadian bank prime rate for commercial loans, payable semi-annually, quarterly and monthly	42,000	32,000
	173,066	172,978
Less current portion	1,100	19,000
Long-term Debt	<u>\$171,966</u>	<u>\$153,978</u>

The aggregate amount of payments required in each of the next five years to meet sinking fund and retirement provisions of the notes and debentures are: 1980, \$1,100,000; 1981, \$33,000,000; 1982, \$29,900,000; 1983, \$43,900,000; 1984, \$21,900,000.

Covenants attached to the 10½% Medium-term Notes, Series A, restricted the distribution of earnings from November 1, 1973 to July 15, 1979, to not more than 60% of consolidated net earnings available for distribution.

5. Provision for Income Taxes

As a result of 1979 changes in the United Kingdom Tax Laws related to "stock relief", net income was increased by \$16,450,000. This includes the reversal to income of \$13,440,000 of deferred income taxes recorded in prior years and \$3,010,000 of 1979 tax benefits from "stock relief", all relating to year-to-year increases in inventory. Of the amount, \$12,950,000 is subject to payment if United Kingdom inventories decrease during the applicable recapture periods ranging up to six years. Management currently believes that it is probable that such inventories will not decrease during the recapture periods.

6. Retirement Plans

The Company has retirement plans in effect for eligible salaried and hourly rated employees. Total pension expense for 1979 was \$12,941,000 (1978 — \$11,899,000). Pension costs are computed on the basis of accepted actuarial methods and include amortization of past service costs. Past service pension costs of \$57,830,000 (1978 — \$55,370,000) which have not as yet been charged to operations will be amortized over the period to 1989. Approximately \$55,516,000 (1978 — \$53,155,000) of past service costs relate to vested benefits.

7. Statutory Information

The remuneration to directors and senior officers as defined in the Business Corporations Act, Ontario, for the year ended October 31, 1979 amounted to \$316,000 (1978 — \$318,000).

8. Contingent Liabilities

The Company sold certain notes totalling \$15,000,000 (1978 — \$15,000,000) of its finance subsidiary, International Harvester Credit Corporation of Canada Limited, to banks with settlement of these notes guaranteed by the Company.

9. Change in Accounting Policy

Commencing in 1979, the Company adopted the policy of accruing for future product warranty costs. The effect of this change, which has been applied retroactively, was to reduce 1979 net income by \$531,000 and 1978 net income by \$246,000. The cumulative effect of this change to October 31, 1977 amounted to \$2,403,000 and has been deducted from retained earnings as of that date.

10. Subsequent Events

Effective November 1, 1979, the Corporate name has been changed to International Harvester Canada Limited.

Summary of Accounting Policies

Basis of Consolidation

The accompanying financial statements include the accounts of International Harvester Company of Canada, Limited and its wholly-owned subsidiaries, Pacific Truck and Trailer Ltd., Seddon Diesel Vehicles Limited, Harcan Leasing Limited and International Harvester Credit Corporation of Canada Limited on a fully consolidated basis. Investments in co-dealerships are carried at cost.

By way of supplementary information (pages 15 through 17) comparative financial statements for 1979 and 1978 are presented to reflect the results of Canadian manufacturing and trading operations on a basis which the Company considers to be more informative as this information is not available from the consolidated accounts. The Canadian manufacturing and trading subsidiary, Pacific Truck & Trailer Ltd., is consolidated. The investments in the foreign subsidiary, Seddon Diesel Vehicles Limited and the finance subsidiaries Harcan Leasing Limited and International Harvester Credit Corporation of Canada Limited are carried in the Statement of Financial Condition at the equity in their net assets and their earnings have been included in the Statement of Income and Income Retained.

Summarized financial data is set out separately for the major wholly-owned subsidiaries which have not been consolidated — Seddon Diesel Vehicles Limited and International Harvester Credit Corporation of Canada Limited — on page 18.

Foreign Exchange

With the exception of inventories, current assets and current liabilities in foreign currencies are translated into Canadian dollars at the year end exchange rates. Inventories have been translated at applicable historical rates. Other foreign currency assets and liabilities are translated at the exchange rates prevailing at the time of acquisition. Revenues, costs and expenses are translated at the average exchange rates for the year, except that depreciation expense is translated at the exchange rates prevailing at the time the related assets were acquired. Gains or losses resulting from exchange rate fluctuations are credited or charged to income currently.

Inventory Valuation

Inventories are valued generally at the lower of cost or market. Cost is determined substantially on the basis of average cost for the year including the cost of opening inventory. Market is considered as replacement value which does not exceed net realizable value for raw materials and supplies and work-in-process. For finished goods, market is considered as net realizable value less a normal profit margin.

Depreciation and Amortization

Depreciation and amortization are generally computed on a straight line basis over the useful lives of the various classes of properties.

Deferred Income Taxes

The Company and its subsidiaries recognize the tax effect of each item in the statement of income in the current period regardless of when the tax is paid. Taxes on amounts which affect financial and taxable income in different periods are reported as deferred income taxes.

Engineering and Research Expenditures

Expenditures for the development of new and improved products are charged to costs as incurred.

Auditors' Report

**Deloitte
Haskins + Sells**

Chartered Accountants,
6th Floor, EquiTrust Tower
1 James Street South, Hamilton,
Ontario L8P 4R5
(416) 523-6770 · Cable DEHANDS

To the Shareholders of International Harvester Company of Canada, Limited:

We have examined the consolidated statements of financial condition of International Harvester Company of Canada, Limited as at October 31, 1979 and 1978 and the consolidated statements of income and income retained and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements (pages 8 through 12) present fairly the financial position of International Harvester Company of Canada, Limited as at October 31, 1979 and 1978 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis, after restatement for the change in accounting for product warranty costs described in Note 9 to the Consolidated Financial Statements.

Our examinations also included the accompanying partially consolidated financial statements of International Harvester Company of Canada, Limited as at October 31, 1979 and 1978 and for the years then ended, which are presented as supplementary information to be read in conjunction with the above mentioned Consolidated Financial Statements.

In our opinion, these partially consolidated financial statements (pages 15 through 17) present fairly the financial position, of the Company as at October 31, 1979 and 1978 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles, except that they are prepared on a partially consolidated basis, applied on a consistent basis, after restatement for the change in accounting for product warranty costs described in Note 9 to the Consolidated Financial Statements.

Deloitte Haskins & Sells

December 7, 1979

Financial Review

Basis of Review

The financial review presentation is based on the financial data shown as Supplementary Information on page 15 through 17. This sets out separately the results of Canadian manufacturing and trading operations and presents a more informative report in line with the Summary of Accounting Policies — Basis of Consolidation — on page 12. Separate data is displayed on page 18 for the major non-consolidated subsidiaries.

Sales

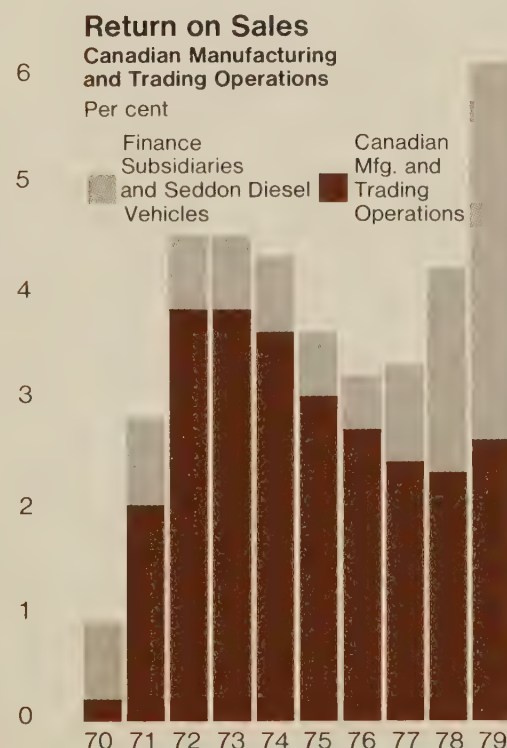
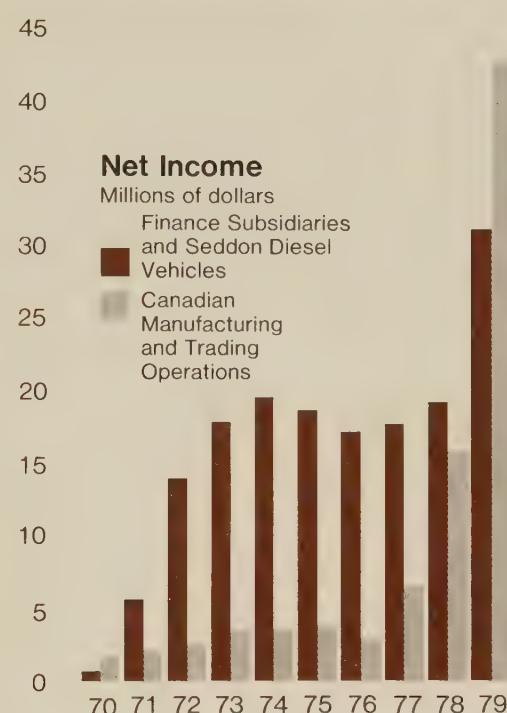
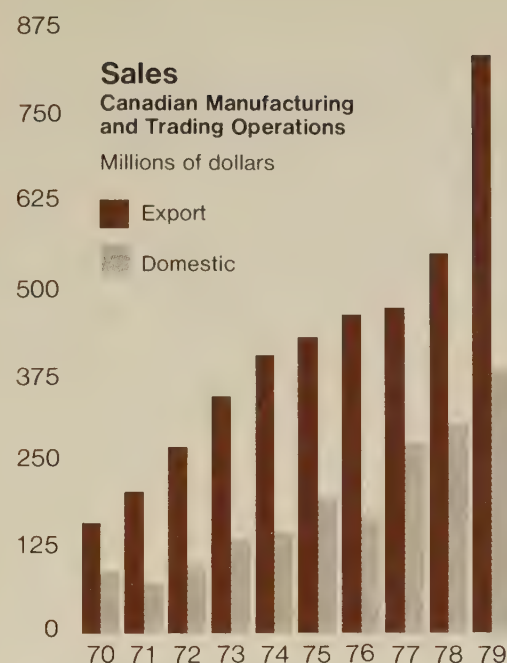
Canadian manufacturing and trading operations sales for 1979 reached an all time high of \$1,210,947,000 compared to \$840,645,000 in 1978. Domestic sales to dealers and users in Canada in 1979 were 51.6% higher than the prior year. Truck, Agricultural Equipment, Construction Equipment, and Components all made significant contributions. Outdoor Power Products increased marginally while Solar sales decreased. Canadian produced goods sold to export markets in 1979 of \$377,848,000 showed an increase of 29.9% over 1978 and were the highest in the Company's history.

Net Income

Fully consolidated net income for 1979 was \$73,954,000 compared to \$35,166,000 for 1978, an increase of 110.3%. A major portion of this increase came from Seddon Diesel Vehicles Limited whose net income including consolidation adjustments was \$33,260,000 for 1979 compared to \$8,647,000 for the prior year. The significant increase at Seddon is mainly due to a currency translation gain in 1979 of \$6,435,000 compared to \$2,978,369 in 1978. Seddon also had a favourable tax adjustment in 1979 of \$16,450,000 resulting from a change in the United Kingdom Tax Laws (see note 5).

Income of the Canadian manufacturing and trading operations of \$31,165,000 increased 63.1% over 1978. The return on sales of 2.6% in 1979 was an improvement over the 2.3% in the prior year. Further improvement in the return on sales resulting from cost reduction programs and other efficiencies was eroded by unfavourable exchange impact caused by the weakness of the Canadian dollar, combined with high financing and interest costs.

Earnings of our major finance subsidiary, International Harvester Credit Corporation of Canada, Limited, of \$9,356,000 for 1979 increased 28.2% over 1978 and were an all time high.



Inventories

Canadian inventories of finished goods, raw materials and supplies and work-in-process were \$188,995,000 in 1979 compared to \$137,850,000 in 1978, an increase of 37.1%. Inventories are summarized by major classifications as follows:

	1979	1978
	(Dollars in thousands)	
Finished goods	\$ 97,888	\$ 76,433
Raw materials and supplies	68,707	47,045
Work-in-process	22,400	14,372
Total Inventories	<u>\$188,995</u>	<u>\$137,850</u>

Property, Plant and Equipment

Capital expenditures of the Canadian manufacturing and trading companies totalled \$7,354,000 for 1979 fiscal year as compared to \$8,778,000 for the previous year. Commitments on appropriations in progress at October 31, 1979 approximated \$7,950,000. The Company continues to be committed to a program of modernization of facilities with an overall improvement of productivity.

Property, plant and equipment by major classes are as follows:

	1979	1978
	(Dollars in thousands)	
Buildings, machinery and equipment at cost:		
Manufacturing	\$ 72,894	\$ 68,919
Distribution	16,220	17,037
Other	1,563	1,068
	<u>90,677</u>	<u>87,024</u>
Less accumulated depreciation	<u>55,134</u>	<u>52,347</u>
	<u>35,543</u>	<u>34,677</u>
Tooling and pattern equipment at cost, less amortization	4,448	4,308
Land at cost	1,580	1,613
Net Property	<u>\$ 41,571</u>	<u>\$ 40,598</u>

Employment

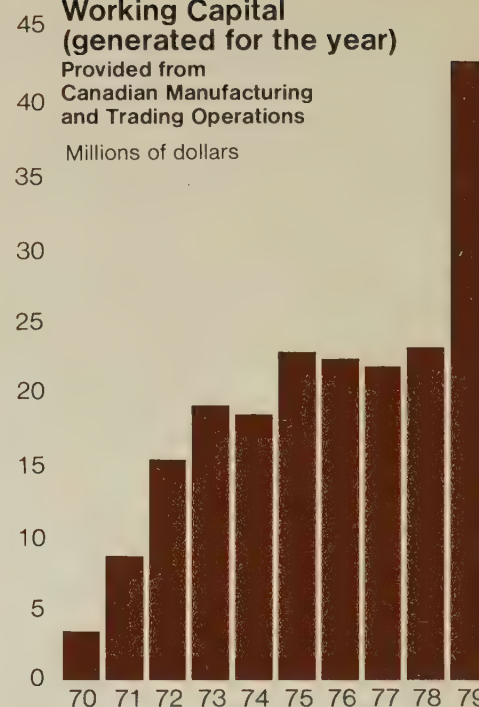
The Company's average employment in Canada in 1979 was 6,381 compared to 6,347 in 1978. Compensation paid to employees in 1979 was \$122,018,000 of which \$107,094,000 was paid for time worked and \$14,924,000 was paid for vacations and statutory holidays. In addition, approximately \$27,687,000 was paid for insurance, medical and pension plans and other fringe benefits.

Comparable 1978 compensation was \$99,839,000 of which \$87,186,000 was for time worked and \$12,653,000 was for vacations and statutory holidays. In addition, approximately \$24,901,000 was paid for fringe benefits in 1978.

Working Capital (generated for the year)

Provided from
Canadian Manufacturing
and Trading Operations

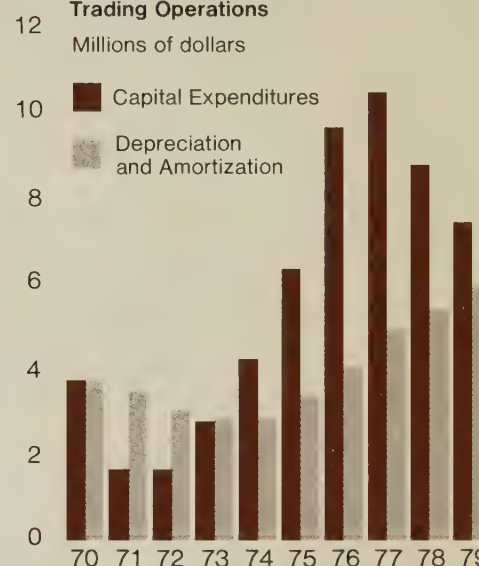
Millions of dollars



Capital Expenditures and Depreciation and Amortization

Canadian manufacturing and
Trading Operations

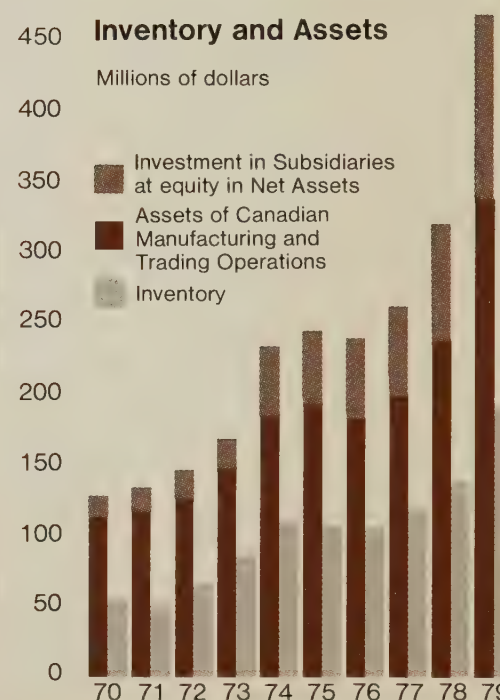
Millions of dollars



Inventory and Assets

Millions of dollars

Investment in Subsidiaries
at equity in Net Assets
Assets of Canadian
Manufacturing and
Trading Operations
Inventory



Supplementary Information

This presentation sets out separately the results of Canadian manufacturing and trading operations (pages 15 through 17) by showing the financial position and results of International Harvester Company of Canada, Limited and Pacific Truck & Trailer Ltd., on a consolidated basis. The investments in the foreign subsidiary, Seddon Diesel Vehicles Limited, and in the finance subsidiaries, Harcan Leasing Limited and International Harvester Credit Corporation of Canada Limited, are carried in the Statement of Financial Condition at the equity in their net assets and their earnings have been included in the Statement of Income and Income Retained. Summarized financial data is set out separately for the major wholly-owned subsidiaries — Seddon Diesel Vehicles Limited and International Harvester Credit Corporation of Canada Limited — on page 18.



INTERNATIONAL HARVESTER COMPANY OF CANADA, LIMITED
(on a partially consolidated basis)

Statement of Income and Income Retained

For the Years ended October 31, 1979 and 1978

(Dollars in thousands)

	1979	1978
Sales and Other Revenues		
Sales:		
Dealers and users in Canada	\$ 833,099	\$ 549,666
International Harvester Company	365,792	279,917
Other affiliated companies and jobbers	12,056	11,062
Total Sales	<u>1,210,947</u>	<u>840,645</u>
Costs and Expenses		
Cost of Sales	1,063,717	740,254
Marketing and administrative expenses	53,267	48,601
Charges for financing services on wholesale notes sold to finance subsidiary	38,469	18,741
Interest expense (including long-term of — 1979 \$1,339; 1978 \$2,039)	5,002	3,763
Sundry deductions less other income	(847)	117
Provision for income taxes:		
Current	13,617	13,453
Deferred	6,557	(3,392)
Total Costs and Expenses	<u>1,179,782</u>	<u>821,537</u>
Income — Canadian Manufacturing and Trading Operations	31,165	19,108
Income — Canadian Finance Subsidiaries	9,529	7,411
Income — Total Canadian Operations	<u>40,694</u>	<u>26,519</u>
Income — Seddon Diesel Vehicles Limited	33,260	8,647
Net Income	<u>73,954</u>	<u>35,166</u>
Dividends Paid	—	7,700
Income Retained		
— for the year	<u>73,954</u>	<u>27,466</u>
— at beginning of the year:		
as previously stated	176,481	148,769
adjustment of prior year's net income (note 9)	(2,649)	(2,403)
as restated	<u>173,832</u>	<u>146,366</u>
— at end of the year	<u>\$ 247,786</u>	<u>\$ 173,832</u>

The accompanying Summary of Accounting Policies, Notes 6 through 10 inclusive to Consolidated Financial Statements and the Financial Review are an integral part of this statement.



Statement of Financial Condition

October 31, 1979 and 1978

(Dollars in thousands)

	1979	1978
ASSETS		
Current Assets		
Cash	\$ 214	\$ 120
Accounts receivable — less allowances	24,917	22,747
Accounts receivable from affiliated companies	31,899	1,436
Notes and accounts receivable from finance subsidiaries	29,427	15,923
Inventories (page 14)	188,995	137,850
Deferred income taxes	6,174	3,580
Other current assets	4,198	4,537
Total Current Assets	285,824	186,193
Equity in Canadian Finance Subsidiaries	63,043	54,289
Equity in Seddon Diesel Vehicles Limited	56,674	28,863
Notes Receivable from Finance Subsidiary	10,000	—
Property, Plant and Equipment at cost, less depreciation and amortization (page 14)	41,571	40,598
Other Assets	9,214	9,164
Total Assets	<u>\$466,326</u>	<u>\$319,107</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Bank indebtedness	\$ 9,369	\$ 20,026
Notes payable — banks	66,800	11,728
Current maturities of long-term debt	—	18,000
Current invoices, payrolls and accruals	99,175	61,700
Accrued taxes	17,894	3,463
Accounts payable to affiliated companies	2,496	13,882
Total Current Liabilities	195,734	128,799
Deferred income Taxes	7,806	1,476
Shareholders' Equity		
Capital stock — authorized, issued and fully paid — 150,000 common shares of \$100 par value	15,000	15,000
Income retained	247,786	173,832
Total Shareholders' Equity	262,786	188,832
Total Liabilities and Shareholders' Equity	<u>\$466,326</u>	<u>\$319,107</u>

The accompanying Summary of Accounting Policies, Notes 6 through 10 inclusive to Consolidated Financial Statements and the Financial Review are an integral part of this statement.



Statement of Changes in Financial Position

For the Years ended October 31, 1979 and 1978

(Dollars in thousands)

	1979	1978
Source of Working Capital		
Income — Canadian manufacturing and trading operations	\$ 31,165	\$ 19,108
Items not affecting working capital:		
Depreciation and amortization	5,768	5,340
Deferred income taxes	6,330	(1,300)
Other	111	111
Working Capital Provided from Canadian Manufacturing and Trading Operations	43,374	23,259
Property disposals	613	667
Decrease in Investment — Seddon Diesel Vehicles Limited	5,450	—
Other — net	613	(3,141)
Total Source	50,050	20,785
Application of Working Capital		
Capital expenditures	7,354	8,778
Decrease in long-term debt	—	18,000
Dividends paid	—	7,700
Purchase of long-term notes receivable — finance subsidiary	10,000	—
Purchase of shares of International Harvester Credit Corporation of Canada Limited	—	5,000
Total Application	17,354	39,478
Increase (Decrease) in Working Capital	32,696	(18,693)
Working Capital — at beginning of the year	57,394	76,087
— at end of the year	\$ 90,090	\$ 57,394
Changes in Working Capital		
Current assets — increase (decrease)		
Cash	\$ 94	\$ 18
Accounts receivable	46,137	8,953
Inventories	51,145	21,019
Deferred income taxes	2,594	2,154
Other current assets	(339)	(240)
Current liabilities — (increase) decrease		
Bank indebtedness	10,657	(13,853)
Notes payable — banks	(55,072)	(5,868)
Current maturities of long-term debt	18,000	(15,994)
Current invoices, payrolls and accruals	(37,475)	(8,670)
Accrued taxes	(14,431)	1,180
Accounts payable to affiliated companies	11,386	(7,392)
Increase (Decrease) in Working Capital	\$ 32,696	\$ (18,693)

The accompanying Summary of Accounting Policies, Notes 6 through 10 inclusive to Consolidated Financial Statements and the Financial Review are an integral part of this statement.

Summarized Financial Data-Major Subsidiaries

October 31, 1979 and 1978

(Dollars in thousands)

SEDDON DIESEL VEHICLES LIMITED

Net Sales

Net Effect on Consolidated Income

Seddon's net income (includes unrealized exchange gain on translation of \$6,435,000 in 1979; \$2,978,369 in 1978)

Consolidation adjustments

Net Effect on Consolidated Income

Summary Statement of Financial Condition

Assets

Cash

Accounts and notes receivable — net

Inventories

Property, plant and equipment at cost, less depreciation

Other

Total Assets

Liabilities

Bank indebtedness

Notes, accounts payable and accruals

Long-term debt

Deferred income taxes

Total Liabilities

Shareholders' Equity

Capital stock

Income Retained

Total Shareholders' Equity

Total Liabilities and Shareholders' Equity

INTERNATIONAL HARVESTER CREDIT CORPORATION OF CANADA LIMITED

Net Income (before consolidation adjustments)

Summary Statement of Financial Condition

Assets

Accounts and notes receivable — net

Deferred income taxes

Prepaid interest and other assets

Total Assets

Liabilities

Notes payable within one year

Notes and accounts payable to parent company

Current maturities of long-term debt

Other current payables and accruals

Long-term debt

Deferred income taxes

Total Liabilities

Shareholders' Equity

Capital stock

Income retained

Total Shareholders' Equity

Total Liabilities and Shareholders' Equity

	1979	1978
Net Sales	<u>\$218,582</u>	<u>\$168,766</u>

Net Effect on Consolidated Income	\$ 34,365	\$ 8,498
Consolidation adjustments	(1,105)	149
Net Effect on Consolidated Income	<u>\$ 33,260</u>	<u>\$ 8,647</u>

Cash	\$ 9,999	\$ —
Accounts and notes receivable — net	25,825	17,603
Inventories	58,618	42,401
Property, plant and equipment at cost, less depreciation	9,143	9,467
Other	4,844	6,645
Total Assets	<u>\$108,429</u>	<u>\$ 76,116</u>

Bank indebtedness	\$ 12,004	\$ 3,080
Notes, accounts payable and accruals	37,596	31,362
Long-term debt	—	6,741
Deferred income taxes	2,429	12,885
Total Liabilities	<u>52,029</u>	<u>54,068</u>

Capital stock	3,997	3,997
Income Retained	52,403	18,051
Total Shareholders' Equity	<u>56,400</u>	<u>22,048</u>
Total Liabilities and Shareholders' Equity	<u>\$108,429</u>	<u>\$ 76,116</u>

	1979	1978
Net Income (before consolidation adjustments)	<u>\$ 9,356</u>	<u>\$ 7,298</u>

Accounts and notes receivable — net	\$627,161	\$415,008
Deferred income taxes	914	729
Prepaid interest and other assets	4,317	3,439
Total Assets	<u>\$632,392</u>	<u>\$419,176</u>

Notes payable within one year	\$335,967	\$175,039
Notes and accounts payable to parent company	22,917	15,852
Current maturities of long-term debt	1,100	1,000
Other current payables and accruals	17,416	10,311
Long-term debt	181,966	153,978
Deferred income taxes	10,756	9,362
Total Liabilities	<u>570,122</u>	<u>365,542</u>

Capital stock	18,000	18,000
Income retained	44,270	35,634
Total Shareholders' Equity	<u>62,270</u>	<u>53,634</u>
Total Liabilities and Shareholders' Equity	<u>\$632,392</u>	<u>\$419,176</u>



Statistical Data

(fully consolidated basis) Dollars in millions

	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970
SALES BY AREA OF FINAL SALE										
Canadian Operations										
Canada	\$ 833.1	549.7	474.3	460.3	425.2	399.4	338.3	266.7	202.2	159.2
United States	367.3	284.4	268.0	163.4	190.0	145.2	125.2	93.0	74.2	88.7
Europe and Africa	8.0	2.9	3.0	1.3	5.5	1.1	1.6	1.9	.6	.4
Latin America	.1	1.2	1.1	.9	1.6	1.3	.7	.9	.3	1.0
Pacific Area	2.4	2.4	3.3	1.0	5.9	1.0	1.0	1.2	1.7	.5
	1,210.9	840.6	749.7	626.9	628.2	548.0	466.8	363.7	279.0	249.8
Seddon Diesel Vehicles Limited	218.6	168.8	125.5	85.2	84.5	—	—	—	—	—
Total	\$1,429.5	1,009.4	875.2	712.1	712.7	548.0	466.8	363.7	279.0	249.8
NET INCOME										
Amount	\$ 74.0	35.2	24.5	20.1	22.6	23.2	21.4	16.6	7.9	2.4
Return on Sales	5.17%	3.48	2.80	2.82	3.17	4.23	4.58	4.56	2.83	.96
Return on Shareholders' equity at beginning of year	39.16%	21.79	16.91	14.72	17.59	19.83	20.30	17.06	8.62	2.68
DEPRECIATION AND AMORTIZATION	\$ 7.4	6.9	6.3	6.2	5.6	4.9	4.8	4.0	3.4	3.7
TAXES —										
FEDERAL, PROVINCIAL AND LOCAL	\$ 29.5	38.4	36.9	29.3	33.7	45.7	43.0	34.2	24.0	14.1
CAPITAL EXPENDITURES	\$ 9.6	10.2	12.2	10.8	10.8	20.0	8.5	6.1	3.1	3.8
SHAREHOLDERS' EQUITY AT END OF YEAR										
Capital stock	\$ 15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Income retained	247.8	173.8	146.4	129.9	121.5	113.5	102.0	90.4	82.3	76.6
Total shareholders' equity	\$ 262.8	188.8	161.4	144.9	136.5	128.5	117.0	105.4	97.3	91.6
REPRESENTED BY										
Current assets	\$ 743.8	464.2	402.1	337.6	340.6	296.1	215.6	179.1	159.7	140.5
Less: Current liabilities	599.8	361.4	286.0	241.7	231.1	228.0	141.5	113.8	91.1	95.0
Working capital	144.0	102.8	116.1	95.9	109.5	68.1	74.1	65.3	68.6	45.5
Net property	57.5	56.9	55.0	50.9	50.2	45.9	31.6	28.3	27.0	29.0
Notes receivable long-term	240.5	181.3	146.4	120.5	87.4	77.7	61.5	51.1	38.1	43.1
Other assets	13.0	13.9	10.9	9.2	9.9	9.8	4.4	4.3	4.5	4.1
Total	455.0	354.9	328.4	276.5	257.0	201.5	171.6	149.0	138.2	121.7
Less:										
Long-term debt	172.0	154.0	154.2	120.3	114.0	71.7	54.6	43.5	40.4	29.5
Deferred income taxes	20.2	12.1	12.8	11.3	6.5	1.3	—	.1	.5	.6
Total	192.2	166.1	167.0	131.6	120.5	73.0	54.6	43.6	40.9	30.1
Total net assets	\$ 262.8	188.8	161.4	144.9	136.5	128.5	117.0	105.4	97.3	91.6
NUMBER OF EMPLOYEES AVERAGE (CANADA)										
	6,381	6,347	6,867	6,556	7,120	7,144	6,510	5,667	4,812	5,828

Prior year's figures have been restated in accordance with Note 9 to the Consolidated Financial Statements.

